

Supplemental Business Case Information For BYs 2003 & 2004 IT Useful Segments

This document collects supplemental business case information for IT useful segments. The Department Investment Review Board will use this information to determine which IT enhancements to undertake, in accordance with the Clinger-Cohen Act, and for monitoring initiative progress.

Please answer each question. Responses should be concise, and prepared at a level of detail commensurate with the initiative lifecycle phase, size/criticality, and type. Initiatives that have not been implemented or deployed will require more detailed information than an initiative in maintenance. We will use the information collected to create a baseline for the initiative.

Please type your responses in the white answer blocks of the Business Case Responses document and return the electronic copy of that document to Treva Lutes by June 7th. Please do not modify the shaded rows of the table. These rows contain special codes that we will use to populate a database automatically.

1. Useful Segment Name *Provide the name of the useful segment and its respective initiative.*

Useful Segment Name: Direct Loan Consolidation

Initiative Name: Solution for Financial Reconciliation and Electronic Verification Certification

2. Useful Segment Description

Briefly describe the useful segment in a concise, non-technical, management-oriented manner (two paragraphs maximum please).

The Direct Loan Consolidation System (DLCS) permits borrowers with federally insured education loans to consolidate them into a single Direct Loan. The DLCS program receives borrower applications by both paper and web. Also paper applications are received from the Debt Management Collection System (DMCS) private collection agencies. Each day the DLCS receives an average of 2,100 applications, with an average of 2.3 loans per application. Approximately 80% are received electronically. Each loan must be verified it is eligible to be consolidated, and that an authorized agent of the Department holds it. Each loan holder must certify all loans and provide payoff amounts using the paper Verification Certificate (VC). The paper VC exchange is made using the U.S. Postal Service (USPS). The loan payoff amounts are calculated using an "interest per diem" (estimation of the interest that will be accrued on the forecast day of loan payoff). The loans are paid by transmitting a consolidated loan file to the FSA FMS, which processes the financial transactions and transmits the payment file to ED FMSS and GAPS issues the payoffs to the lenders. The consolidated loans become a Direct Loan that is serviced by the Direct Loan Servicing System (DLSS).

There are two significant issues with the loan consolidation process that need to be corrected. An Electronic Verification Certificate (EVC) and modification of the FLA, FLB, FLC, FLD transactions need to be financial based, rather than transaction based.

First Issue: The DLCS process is highly automated, except for the VC process. The consequences of using a manual VC process are data entry errors and interpretation errors resulting from poor handwriting by the loan holders. There are inaccuracies in loan ID's, loan amounts, dates of first disbursements, interest rates, SSN's, etc., etc. An average of 4,000 transaction errors each month require manual intervention to correct them. The consequences are costly to FSA because:

- 1) The additional human capital required to research and correct the errors by the DLCS & DLSS contractors, and the DLCS and DLSS staff;
- 2) the borrowers that benefit from lesser interest rates than they are entitled to do not report the errors, and the U.S. Treasury is not capturing a fair return on the investment; and,
- 3) the inaccurate payoff amounts produce over and under payment transactions, which burden the FMS and FMSS.

Second Issue: The payment files sent to DLSS are transaction based rather than financial based. The DLCS functions in the same manner as a transaction bank. The functionality that was developed by the contractor was based on the principal of reconciling the number of transactions as a first priority, and the financial reconciliation as the second priority. The recent concerns about the Department's inability to accurately account for its' expenditures has raised the level of priority to modify the consolidation process to a financial based system. The financial reconciliation attempt is a daily process that cannot achieve 100% balance because the system was designed on a Department spec in the early 90's. That has changed with new priorities. The current DLCS cannot permit ED Budget Service and the FSA CFO to reconcile the amount of funds paid to loan holders with the amount applied to the borrower consolidated loan unless the DLCS funding transactions are updated to being financial based.

3. Solution Impact

(1) What will be the impact of the useful segment on lines of business and business processes? (2) What is the impact of the useful segment on other IT initiatives? (3) Identify the direct beneficiaries, customers, users, and any additional stakeholders of the useful segment. (4) Describe how the direct beneficiaries, customers, users, and additional stakeholders are involved with the planning, development, and operation of the useful segment. (5) What are the major organization restructuring, training, and change management projects that will be required?

The DLCS developed an EVC in consort with Sallie Mae in 2000, as a test product. Although the data is exchanged via a floppy disk, it has been very successful in reducing errors, and provided useful knowledge in how to construct a web-based EVC. Approximately 4,000 borrowers each month would directly benefit from the EVC because their loan balances would be correct when it is transmitted to the DLSS. The EVC would reduce the burden on the following Department Offices:

ED FMSS –system processing time will be reduced, fewer corrective transactions, and up-to-date accounting;

FSA FMS - system processing time will be reduced, fewer corrective transactions, and up-to-date accounting;

FSA CFO – Able to track expenditures and forecast funding requirements more accurately;

ED Budget Service - Able to track expenditures and forecast funding requirements more accurately;

DLCS – Reduce research man-hours to correct borrowers accounts;

DLSS - Reduce research man-hours to correct borrowers accounts;

FSA – Burden on modernization effort will be reduced, as loan payoff protocols will already be established.

ED Congressional Office – Fewer borrower complaints; and,

Ombudsman – Fewer borrower complaints

To implement the EVC involves development of a Web-based product that is initially compatible with the product that is used to pay loan holders electronically (EFT), and then increase the participation with the remaining loan holders that are paid by check. Approximately 70% of the private loan payoffs are disbursed using EFT and the payment manifests are provided via the Web so the EFT users would already be familiar with the process. No organizational restructuring will be required. The impact on human capital will be less time required to resolve loan balance errors.

Enhancing the LC payoff transactions will assist the Department in achieving a clean audit because the DLCS, FMS and DLSS will be able to reconcile the funds drawn, payoff amounts, and funds applied to borrowers loans. Enhancement will reduce the burden on the following Department offices

ED FMSS –system processing time will be reduced, fewer reconciliation queries, able to reconcile;

FSA FMS - system processing time will be reduced, fewer reconciliation queries, able to reconcile

FSA CFO – Able to track expenditures, accurately forecast funding requirements, able to reconcile;

ED Budget Service - Able to track expenditures, accurately forecast funding requirements, able to reconcile;

DLCS – Reduce research man-hours to correct borrowers accounts; able to reconcile

DLSS - Reduce research man-hours to correct borrowers accounts, able to reconcile; and,

FSA – Burden on modernization effort will be reduced, as loan payoff transactions will be reconcilable.

4. Mandatory Requirement

Is this useful segment, or the business process it supports, required by legislation, regulation (CFR citation), or other guidance (e.g., OMB Circular, Presidential Management Memorandum)? If so, please cite the specific section number, name, and language of the requiring provision. Additionally, if the business process is required, then please indicate the extent to which the useful segment supports the business process and compliance with the requiring provision.

There are no directives mandating these enhancements. The need for the Department to obtain a clean audit is one of the factors that influenced Students Channel management to decide on enhancing the system at this time, rather than waiting to build the functionality into the Modernization Architecture. It would be irresponsible to delay making these enhancements and have to endure criticism for postponing the corrective actions during a time when the Department is under pressure to account for the appropriations it receives and the funds expended. Also, the current LC contractor is familiar with constructing the EFT process, and the flaws in the financial transactions. It is believed the cost to enhance the system will result in immediate savings, and be less costly to develop now rather than waiting for the new architecture.

5. Consequence of Not Funding the Useful Segment

Describe the adverse impacts on business operations or future costs if the useful segment is not funded.

The business case is improved when an operation or business process is highly dependent on the useful segment or delaying the useful segment will result in significantly higher costs in the future.

EVC Approximately 4,000 transaction errors will continue to occur each month. Manual intervention will continue to be necessary to research and correct the errors by the DLCS and DLSS contractors, and the DLCS and DLSS teams. Borrowers will continue to suffer from loan errors: e.g.; incorrect interest rates, inaccurate loan balances, misapplied repayment plans, etc. The incorrect payoff amounts produce over and under payment transactions, which burden the FSA FMS and ED FMSS, and place a sizeable burden on human capital to resolve errors. This also means the accounting system cannot reconcile within a reasonable timeframe because of the constant flow of correction transactions keeps the records in a constant state of changing balances. The cost in waiting to develop the EVC within the Enterprise Architecture will cost more and require more human capital because there will not be an Institutional knowledge of the loan holder key personnel, systems, capabilities, and functionality. Further, the lack of the EFT development experience will increase the development cost and lengthen the time to implementation.

Financial Based Transactions Not correcting the transactions will perpetuate the Department's inability to achieve financial reconciliation. Specifically, the ED Budget Service and the FSA CFO will not be able to reconcile the amount of funds paid to loan holders with the amount applied to the borrowers consolidated loans.

6. Benefits

Please describe the benefits associated with the useful segment, including how the investment reduces costs or improves efficiencies.

Benefits are the advantages or gains the useful segment produces for customers, the public, or the Department. Benefits can include increased efficiencies, improved customer satisfaction, reduction in costs, increase in revenue, or improved public access to ED information.

The EVC will reduce the number of days required to exchange the borrower loan data. The USPS costs to send the paper VC will be reduced significantly. The EVC data can be imported directly into the borrower application record without manual input. This will reduce human data entry errors thereby reducing the number of under/over payments, which reduces staff research workload, lessens the number of correction transactions, and reduces the burden on FMS and FMSS. This will also improve the borrower's satisfaction.

Changing the loan transactions to financial based will permit reconciliation thereby assisting the Department to achieve a clean audit. The Department owns the legacy system which will become part of the Enterprise Architecture in the future. However, the financial and transaction relationship with loan holders, borrowers, and Department organizations will continue. Enhancing the DLCS transactions will reduce the development burden on the new system, and the cost.

7. Crosscutting Initiative

Indicate which Principal Offices the useful segment supports. If the useful segment supports the entire Department, then simply select that item. If the useful segment supports entities outside of the Department, then in addition to selecting "Entities outside of the Department," please identify the agencies and organizations affected by this useful segment.

- ☐ Entire Department
- ☐ Office for Civil Rights
- ☐ Office of Educational Research and Improvement
- ☐ Office of Elementary and Secondary Education
- ☐ Office of English Language Acquisition
- ☐ Office of Postsecondary Education
- ☐ Office of Special Educational and Rehabilitation Services
- ☒ Federal Student Aid
- ☐ Office of Vocational and Adult Education
- ☒ Office of the Chief Financial Officer
- ☒ Office of the Chief Information Officer
- ☒ Office of the General Counsel
- ☐ Office of Inspector General
- ☒ Office of Intergovernmental and Interagency Affairs
- ☒ Office of Legislation and Congressional Affairs
- ☒ Office of Management
- ☐ Office of Public Affairs
- ☒ Entities outside of the Department

8. Audit Finding

Does the useful segment close an audit recommendation? If so, please describe the recommendation and note the audit name or number.

There are no known audit findings